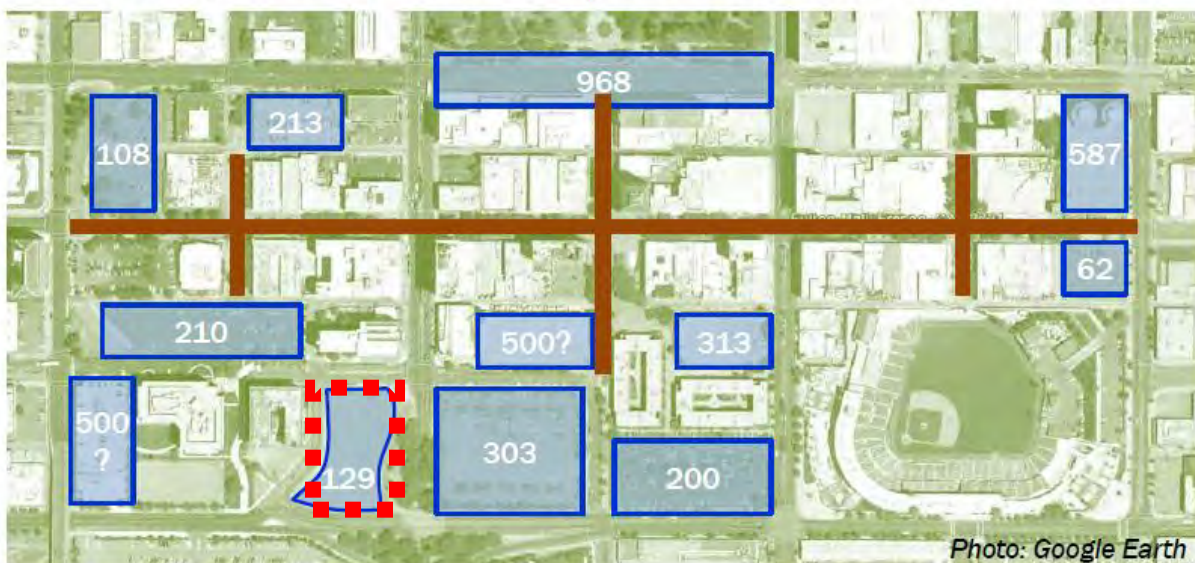


## Downtown Case Study: Hypothetical New Construction Fresno Street & H Street – “Kidney Bean Plaza”



The “Kidney Bean Lot” at Fresno Street & H Street, outlined in red. There are over 4,000 parking stalls (in blue) in the immediate vicinity of Fulton Mall (in brown).

***Note: This case study is for discussion purposes only.***

This particular parcel was chosen for this case study because it presents several challenges and opportunities common to infill projects in Fresno (and elsewhere in California), including:

- It is an RDA-owned parcel that does not yet have a disposition plan.
- It requires significant infrastructure investment – In this case, reconstruction of the intersection at H Street and Fresno Street.
- Existing utilities and infrastructure are likely insufficient to serve the proposed increased intensity.
- It is within one block of the future High Speed Rail station, and within walking distance of a number of amenities, including the Cultural Arts District, Chukchansi Park, Civic Center, and Mariposa Plaza and the Fulton Mall.

### Description

Fresno’s Successor Agency to the former Redevelopment Agency (dissolved in 2011) retains ownership of the parcel at Fresno Street and H Street in Downtown Fresno (outlined above, in red). This parcel is known locally as the “Kidney Bean Lot” because of its rounded lot lines (which are a vestige of the 1960’s revitalization plan by Victor Gruen that also resulted in the “pedestrian-ization” of Fulton Street). The parcel is currently used as surface parking. It is across the street from the future High Speed Rail station, which will be located across H Street at Mariposa. A Phase 1 environmental was completed in July 2013, and no significant environmental issues were found. The Successor Agency will be soliciting an RFP for “Transit Oriented Development” for the site in late 2013.

## Lot Specifications

- This case study assumes a reconstructed lot with squared corners, per the specifications in the drawing below.
- With a reconstructed intersection at H Street and Fresno, the square lot would be about 145' x 323' – about **1.1 acres** (~46,800 sf). The existing parcel is 1.36 acres, about 175' x 320'.

## Zoning

The Fulton Corridor Specific Plan (which is expected to go before City Council for adoption in March, 2013) identifies a Central Business District-1 Zone for this parcel. This zone is characterized by:

- Active streetscapes
- Solid massing on the lower floors to generate a consistent street wall
- Ground floor commercial, retail, and office activity to support active streetscapes and walking
- Flexible use of upper floors and the floor area behind shopfronts for a wide variety of office, civic, lodging, housing, or additional commercial uses
- New buildings are block-scale and between 2 and 15 stories



*Site view looking West from the intersection of Fresno and Broadway Streets*



*Site view looking east from H Street*

## Proposed Project

The case study envisions 65 units of market-rate housing and 10,000 sf of ground-floor retail. The pro forma assumes no public subsidy in order to illustrate the financing gap.

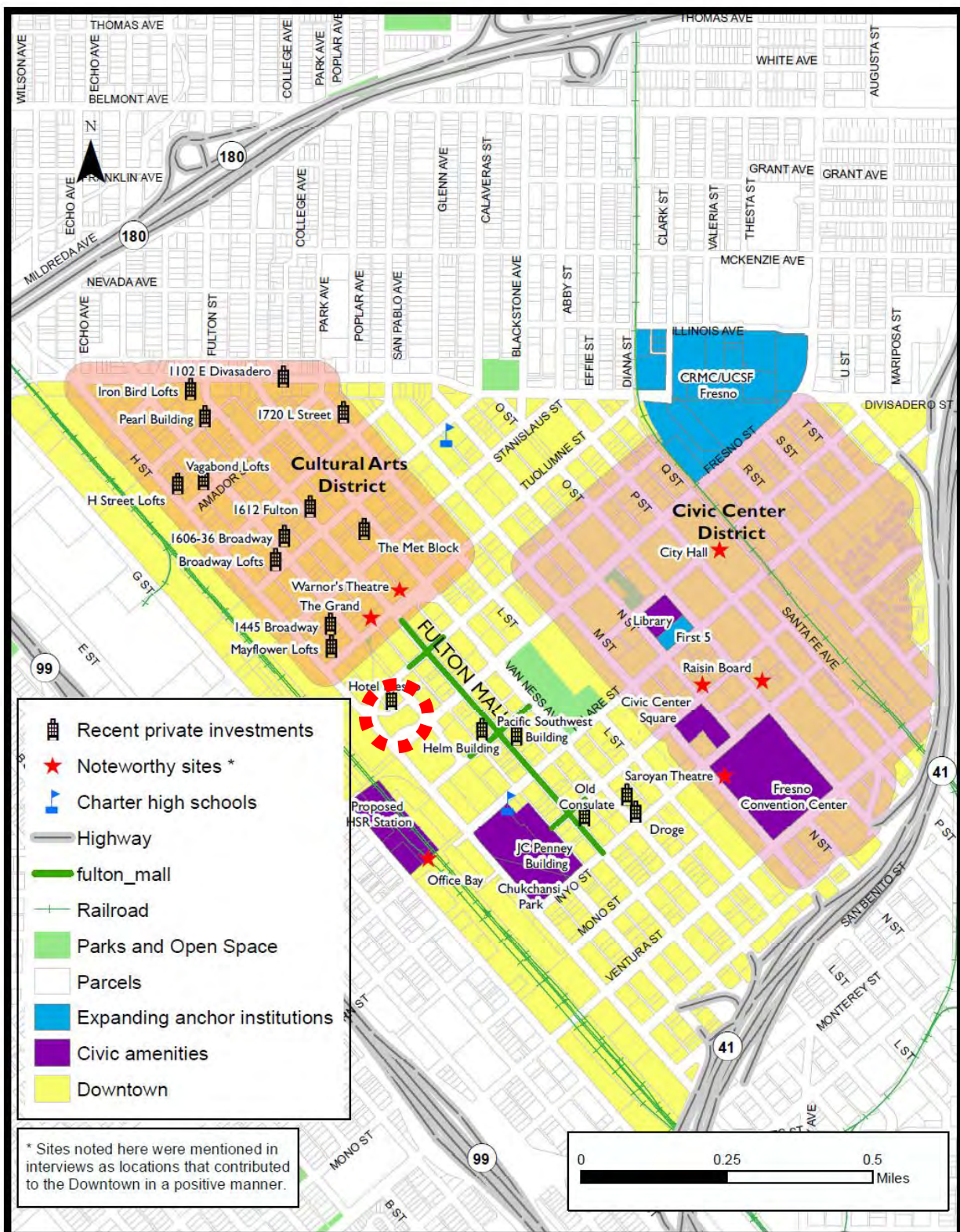
## Financials

- **LAND:** The former Redevelopment Agency paid \$473,300 for the property (including acquisition and relocation costs) in 1967. The lot has not been appraised recently, but other nearby parking lots were appraised late last year at about \$10.00 per square foot. At that rate, the lot would be valued at around **\$468,000**.
- **INFRASTRUCTURE:** The City estimates the cost of reconstructing the intersection at Fresno and H Street, *including* regrading and reconstructing the adjacent underpass on the other side of H Street, to be about \$4 million. The City is currently in conversation with the CA High Speed Rail Authority regarding inclusion of these costs in the construction budget for High Speed Rail.

For the purposes of this exercise, the portion of the work specifically related to the Kidney Bean Lot is estimated at 10% of that total, or **\$400,000**.

- **NEW CONSTRUCTION:** Construction cost is estimated at \$30,210,000 – about \$90/sf for commercial and residential components combined.
- **TOTAL DEVELOPMENT COST:** \$31,083,000
- **EQUITY:** Case study assumes 20% equity.
- **RETURNS:** Because of the large debt service required without subsidy (80% TDC), return on total assets is between 2% and 3% for the first 10 years. Return on equity is negative.

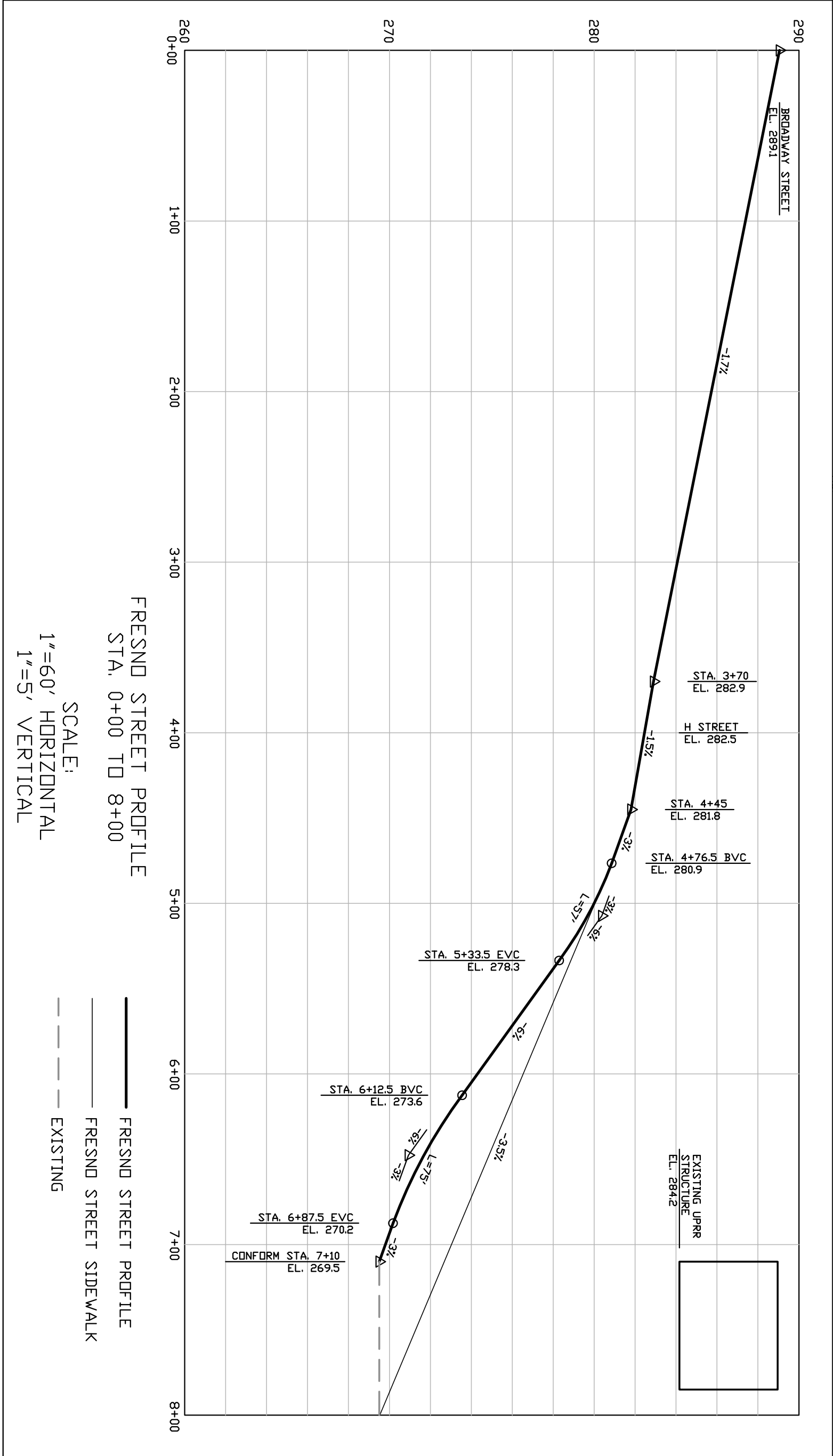
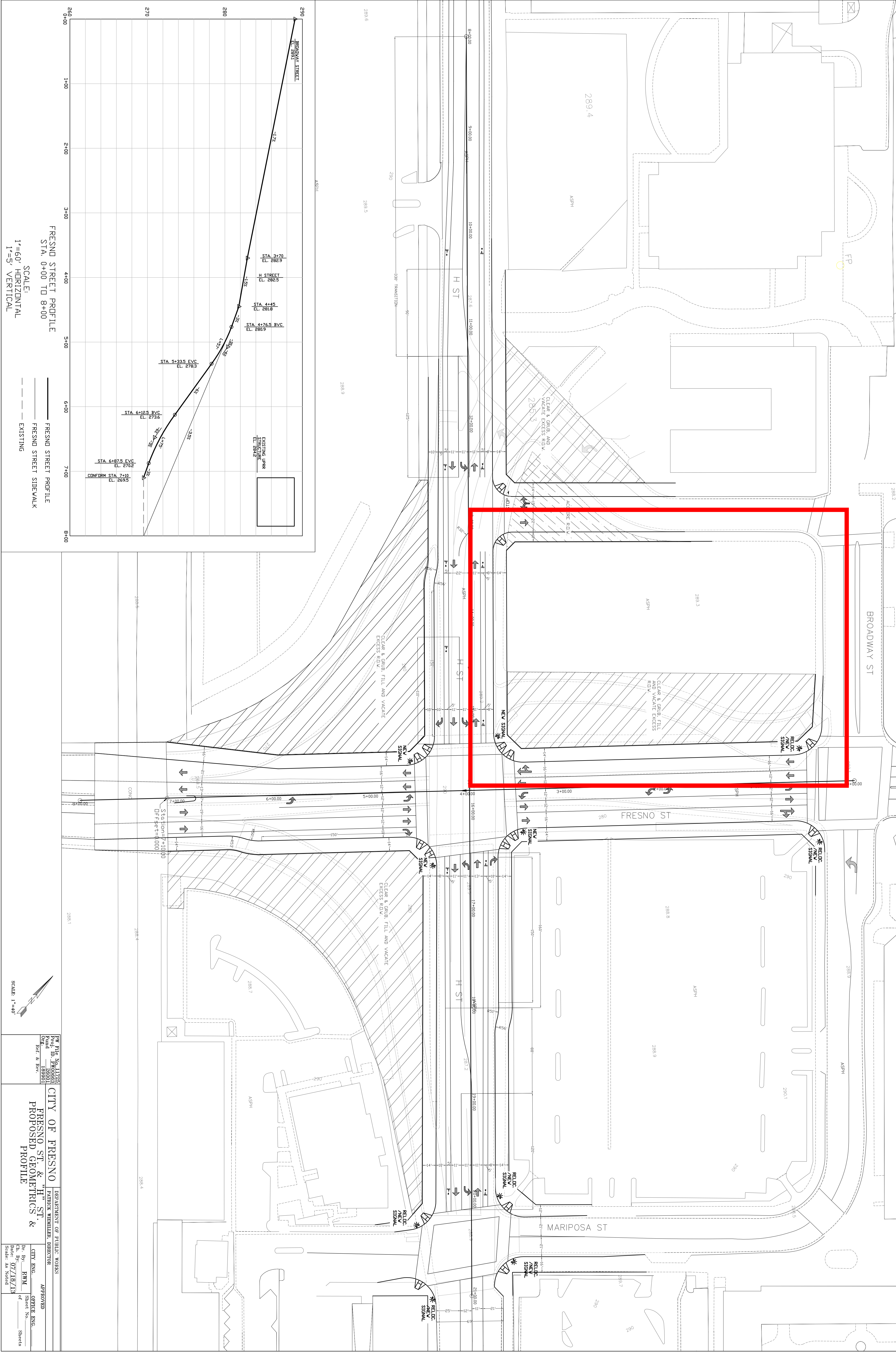




Source: Strategic Economics, 2012

**Downtown Area Assets.** "Kidney Bean Lot" is circled in red.





CITY OF FRESNO		DEPARTMENT OF PUBLIC WORKS	
FRESNO ST. & "H" ST.		PATRICIA MEHLER, DIRECTOR	
PROPOSED GEOMETRICS & PROFILE		APPROVED	
PW File No. 11723		CITY ENG. RMW	
Fund ID: 260001		Date: 07/18/13	
Off. 189901		Scale: As Noted	
Ref. & Rev.		Sheet No. of Sheets	

BROADWAY ST

289.1

RELOC.  
/NEW  
SIGNAL

289.3

ASPH

CLEAR & GRUB, FILL  
AND VACATE EXCESS  
R.O.W.

319'

210'

ACQUIRE R.O.W.

STOP

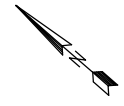
NEW SIGNAL

289.2

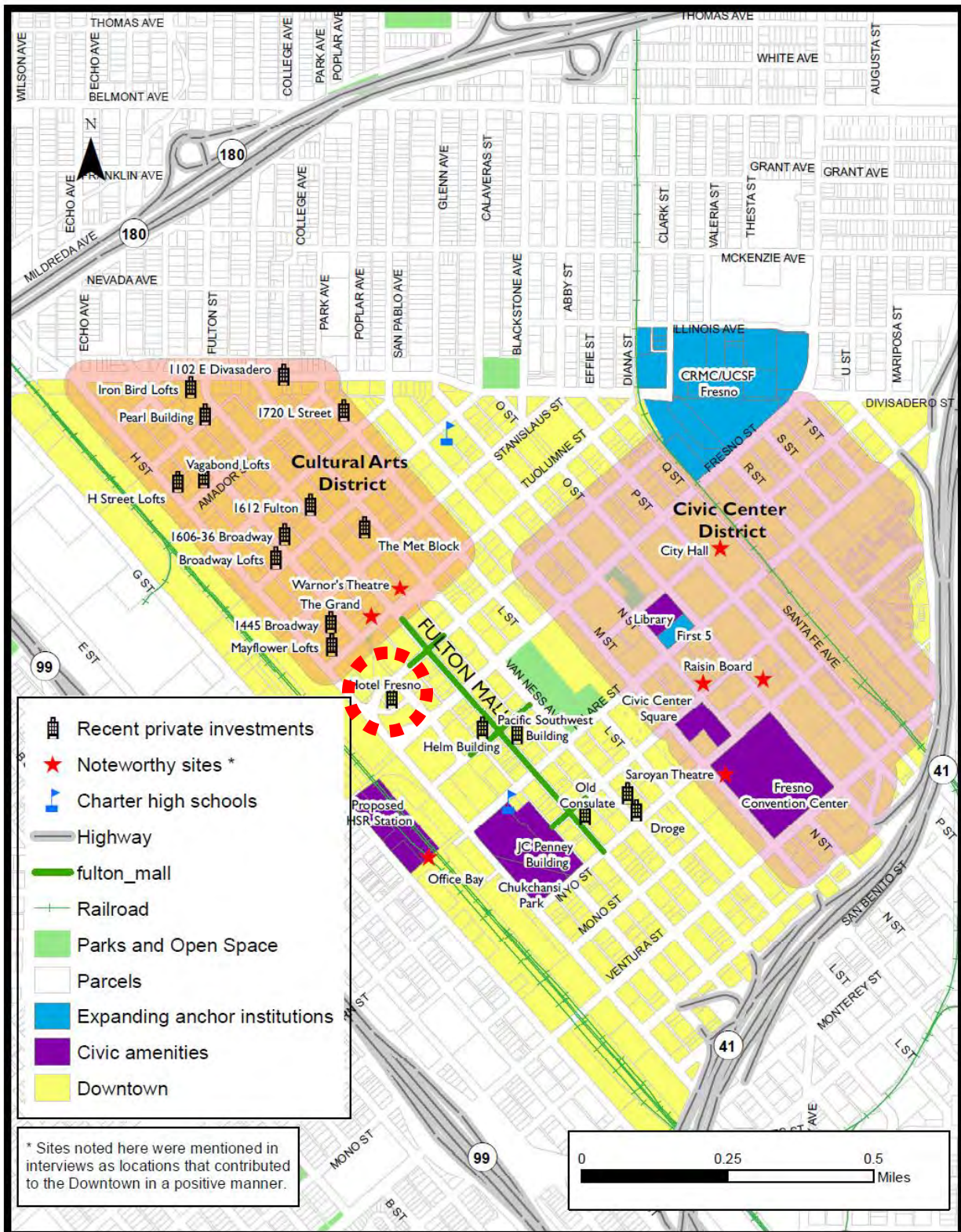
ASPH

H ST

CONC



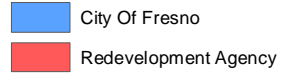




Source: Strategic Economics, 2012

*Downtown Area Assets. Hotel Fresno site is circled in red.*







ASSUMPTIONS

BUILDING-WIDE ASSUMPTIONS	
	Percent
Op. Cost Inc./Year	2.00%
Reserves Inc./Year	3.00%

RESIDENTIAL

Unit Type	# Units	SF	\$/SF	Mo. Rent	Ann. Rent
Studio	20	700.00	1.15	805	193,200
1 BR	30	850.00	1.20	1,020	367,200
2 BR	12	1,050.00	1.15	1,208	173,880
3 BR	3	1,400.00	1.08	1,512	54,432
	0			0	0
	0			0	0
TOTAL	65				788,712

RESIDENTIAL ASSUMPTIONS	
	Percent
Rent Inc./Year	2.00%
Vac. Year 1	10%
Vac. Year 2	5%
Vac. Year 3 & Future	3%

Total Residentail SF 260,000

COMMERCIAL

Description	Leaseable SF	\$/SF/Mo	\$/SF/Year	Annual Rent
Ground Floor Retail	10,000	1.05	12.60	126,000
	0		0.00	0
	0		0.00	0
Total Commercial SF	10,000			126,000
	Leaseable SF	\$/SF/Mo	\$/SF/Year	Ten. Cont.
Tenant Contributions	0		0.00	0
Tenant Contributions	5,000		0.00	0
Tenant Contributions	0		0.00	0
TOTAL TENANT CONTRIBUTIONS	5,000		0	0

COMMERCIAL ASSUMPTIONS	
	Percent
Rent Inc./Year	2.00%
Vac. Year 1	25%
Vac. Year 2	10%
Vac. Year 3 & Future	5%
Other Income Increase	3%
Weighted Op. Exp.	3%

Total Building SF 270,000  
% Residential 96.30%  
% Commercial 3.70%

TOTAL INCOME

Residential Income	788,712
Commercial Income	126,000
Tenant Contributions	0
Other Income	0
TOTAL INCOME	914,712

OPERATING EXPENSES (COM + RESID)



Kidney Bean Plaza - No Subsidy

Management Fee	13,000		
Advertise/Market	8,000		
Legal	2,000		
Administrative	6,000		
Utilities	5,000		
Trash	2,000		
Maintenance/Repairs	15,000		
Grounds	8,000		
Real Estate Property Tax	2,000		
Insurance	2,000		
Other	0		
Total Operating Expenses	63,000	6.89%	Percent of Revenue
Replacement Reserves	8,000		
Total Operating Exp. and Reserves	71,000	7.76%	Percent of Revenue



CAPITAL BUDGET		
Land Acquisition		
Land Cost		468,000
Site Improvements		400,000
Site Grading & Preparation		5,000
Total Land Acquisition		873,000
Construction Costs		
Construction Cost Per Square Foot	90	
Total Square Footage	270,000	
		24,300,000
Contingency	10%	2,430,000
Permits & Impact Fees		200,000
Architect & Engineer		1,100,000
Legal		100,000
Developer Fee		2,000,000
Construction Finance Fees		80,000
Total Construction Cost		30,210,000
Total Development Cost		31,083,000
FINANCING REQUIRED		
% Equity invested	20%	
Less: Equity Invested		\$6,216,600
Total Debt		\$24,866,400



<b>DISCOUNTED CASH FLOW ANALYSIS - 10 Year Period</b>											
	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
<b>Income</b>											
Annual Rent - Residential		788,712	804,486	820,576	836,987	853,727	870,802	888,218	905,982	924,102	942,584
Vacancies		91,471	47,108	29,113	29,986	30,885	31,812	32,766	33,749	34,762	35,805
Residential Income Less Vacancy		697,241	757,379	791,463	807,002	822,842	838,990	855,451	872,233	889,340	906,779
Annual Rent - Commercial		126,000	128,520	131,090	133,712	136,386	139,114	141,896	144,734	147,629	150,582
Vacancies		31,500	12,852	6,555	6,686	6,819	6,956	7,095	7,237	7,381	7,529
Commercial Income Less Vacancy		94,500	115,668	124,536	127,027	129,567	132,158	134,802	137,498	140,248	143,053
Annual Gross Rent		914,712	942,153	970,418	999,530	1,029,516	1,060,402	1,092,214	1,124,980	1,158,730	1,193,492
<b>Effective Gross Income</b>		<b>791,741</b>	<b>815,493</b>	<b>839,958</b>	<b>865,157</b>	<b>891,111</b>	<b>917,845</b>	<b>945,380</b>	<b>973,741</b>	<b>1,002,954</b>	<b>1,033,042</b>
<b>Expenses</b>											
Annual Operating Expenses		63,000	64,260	65,545	66,856	68,193	69,557	70,948	72,367	73,815	75,291
Real Estate Taxes		2,000	2,060	2,122	2,185	2,251	2,319	2,388	2,460	2,534	2,610
Replacement Reserves		8,000	8,240	8,487	8,742	9,004	9,274	9,552	9,839	10,134	10,438
Total Operating Expenses		<b>73,000</b>	<b>75,190</b>	<b>77,446</b>	<b>79,769</b>	<b>82,162</b>	<b>84,627</b>	<b>87,166</b>	<b>89,781</b>	<b>92,474</b>	<b>95,248</b>
Sale Price/Year 10											
<b>Free &amp; Clear / CFBF</b>		<b>718,741</b>	<b>740,303</b>	<b>762,512</b>	<b>785,387</b>	<b>808,949</b>	<b>833,218</b>	<b>858,214</b>	<b>883,961</b>	<b>910,479</b>	<b>937,794</b>
<b>Debt Service</b>											
Annual Debt Payment		-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013
<b>Cash Flow After Financing</b>		<b>-667,272</b>	<b>-645,710</b>	<b>-623,501</b>	<b>-600,625</b>	<b>-577,064</b>	<b>-552,795</b>	<b>-527,799</b>	<b>-502,052</b>	<b>-475,533</b>	<b>-448,219</b>
<b>Income Tax Payment</b>		<b>-407,673</b>	<b>-393,404</b>	<b>-378,658</b>	<b>-363,418</b>	<b>-347,667</b>	<b>-331,389</b>	<b>-314,564</b>	<b>-297,175</b>	<b>-279,202</b>	<b>-260,625</b>
<b>Cash Flow After Taxes</b>	<b>-6,216,600</b>	<b>-259,599</b>	<b>-252,305</b>	<b>-244,842</b>	<b>-237,207</b>	<b>-229,396</b>	<b>-221,407</b>	<b>-213,235</b>	<b>-204,878</b>	<b>-196,332</b>	<b>-187,594</b>
<b>Return on Total Assets</b>		<b>2.31%</b>	<b>2.38%</b>	<b>2.45%</b>	<b>2.53%</b>	<b>2.60%</b>	<b>2.68%</b>	<b>2.76%</b>	<b>2.84%</b>	<b>2.93%</b>	<b>3.02%</b>
<b>Return on Equity</b>		<b>-4.18%</b>	<b>-4.06%</b>	<b>-3.94%</b>	<b>-3.82%</b>	<b>-3.69%</b>	<b>-3.56%</b>	<b>-3.43%</b>	<b>-3.30%</b>	<b>-3.16%</b>	<b>-3.02%</b>



DEBT PAYMENT CALCULATIONS											
Interest Rate	3.80%										
Term of Loan (years)	30										
Total Development Cost	31,083,000										
Less: Equity Invested	6,216,600										
Total Debt		24,866,400									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Annual Payment	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013	-1,386,013
Total Debt		24,866,400	24,425,310	23,967,459	23,492,210	22,998,901	22,486,847	21,955,334	21,403,624	20,830,949	20,236,512
Interest Paid		944,923	928,162	910,763	892,704	873,958	854,500	834,303	813,338	791,576	768,987
Amortization		-441,090	-457,851	-475,249	-493,309	-512,055	-531,513	-551,710	-572,675	-594,437	-617,025

SALE PRICE	
Estimated Sale Price	
Cap Rate (1st Stabilized Year)	10.00%
Value (Year of Sale):	9,377,937
Book Value	
Total Development Cost	31,083,000
Add: Capital Improvements	91,711
Less: Depreciation	8,836,364
Net Book Value:	22,338,347
Gain on Sale	
Selling Price	9,377,937
Less: Broker, Lawyer Fees	468,897
Net Selling Price:	8,909,040
Less: Net Book Value	22,338,347
Gain on Sale:	-13,429,307
Tax Payment	
Gain on Sale	-13,429,307
Capital Gains Tax	15.00%
Capital Gains Tax Payment:	-2,014,396
Net Cash to Seller	
Net Selling Price	8,909,040
Less: Mortgage Loan Balance	19,619,487
Less: Capital Gains Tax Payment:	-2,014,396
Net Cash From Sale:	-8,696,051



TAX PAYMENT CALCULATIONS										
Calculation of Tax Payment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cash Flow After Financing	-667,272	-645,710	-623,501	-600,625	-577,064	-552,795	-527,799	-502,052	-475,533	-448,219
Add: Replacement Reserves	8,000	8,240	8,487	8,742	9,004	9,274	9,552	9,839	10,134	10,438
Add: Mortgage Amortization	-441,090	-457,851	-475,249	-493,309	-512,055	-531,513	-551,710	-572,675	-594,437	-617,025
Less: Depreciation	883,636	883,636	883,636	883,636	883,636	883,636	883,636	883,636	883,636	883,636
Taxable Income	-1,101,819	-1,063,255	-1,023,401	-982,211	-939,641	-895,645	-850,173	-803,175	-754,599	-704,392
Tax Rate	37.00%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Tax Payable:	-407,673	-393,404	-378,658	-363,418	-347,667	-331,389	-314,564	-297,175	-279,202	-260,625

NET PRESENT VALUE CALCULATIONS										
Discount Rate	12.00%									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total CFAT for Each Year										
	-252,305	-252,305	-244,842	-237,207	-229,396	-221,407	-213,235	-204,878	-196,332	-8,883,645
Discount Factor (Discount Rate =12%)										
	0.892857143	0.797193878	0.711780248	0.635518078	0.567426856	0.506631121	0.452349215	0.403883228	0.360610025	0.321973237
PV of Each Cash Flow										
	-225,273	-201,136	-174,274	-150,749	-130,166	-112,171	-96,457	-82,747	-70,799	-2,860,296
NPV										
Sum of All PVs:		-4,104,068								
Less: Equity Invested		6,216,600								
NPV:		-10,320,668								